



Foundations On-Demand

Liquidity Quiz

Liquidity Quiz

Be sure to check your answers on the last page of this document.

- ?** What is the definition of Liquidity?

 - A. The ability to convert inventory into cash
 - B. The ability of a company to sell its assets
 - C. The ability of a company to meet its financial obligations
 - D. None of the above

- ?** How many different Liquidity Ratios are there?

- ?** What is the name of the tax schedule that you can find distributions on?

- ?** What liquidity ratio test is performed on a business that does not rely on inventory to generate income?

- ?** The formula for the Current Ratio is:

 - A. Current Liabilities divided by Current Assets
 - B. Current Assets minus Current Liabilities
 - C. Current Liabilities minus Current Assets
 - D. Current Assets divided by Current Liabilities

- ?** What schedule within Partnership 1065 or S Corporation 1120s tax returns can you sometimes find the information to do a liquidity test?

 - A. Schedule K
 - B. Schedule L
 - C. Schedule D
 - D. Schedule A



Answer Me!

Liquidity Quiz (cont.)

- ? If the schedule that contains the information within the Partnership 1065 or S Corporation 1120s is blank what must you request from the borrower in order to perform a liquidity calculation?
- ? A Liquidity Ratio that is greater than _____ is considered good per Fannie Mae Guidelines.
- ? What asset, not included in the Acid Ratio, takes longer to turn into cash?
- ? Calculate the Acid Ratio.
Cash and Cash Equivalents = \$50,000
Short-Term Investments = \$7,000
Accounts Receivable = \$10,000
Inventory = \$21,000
Current Liabilities = \$32,000
- ? Is the Acid Ratio acceptable to Fannie Mae?
- ? What Liquidity Ratio is not mentioned in Fannie Mae Guidelines but is part of Liquidity Ratios in accounting? (It is the most stringent ratio).
- ? K1s for a Partnership 1065 or S Corporation 1120s show a documented, stable history of receiving cash distributions of income. These distributions from the business are consistent with the level of income being used to qualify. In this scenario, are you required to calculate a liquidity ratio?
- ? What do you compare Ordinary Income (Box 1) on the K1 of a Partnership 1065 or S Corporation 1120s with to determine if you need to do a liquidity test?



Answer Me!



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Liquidity Quiz Answer Key

Liquidity Quiz - Answers



Answer Key!

- Q:** What is the definition of Liquidity?
- A:** The ability of a company to meet its financial obligations as they come due.
- Q:** How many different Liquidity Ratios are there?
- A:** 3
- Q:** What is name of the tax schedule that you can find distributions on?
- A:** Schedule K1
- Q:** What liquidity ratio test is performed on a business that does not rely on inventory to generate income?
- A:** Current Ratio
- Q:** The formula for the Current Ratio is:
- A:** C. Current Assets divided by Current Liabilities
- Q:** What schedule within Partnership 1065 or S Corporation 1120s tax returns can you sometimes find the information to do a liquidity test?
- A:** B. Schedule L
- Q:** If the schedule that contains the information within the Partnership 1065 or S Corporation 1120s is blank what must you request from the borrower in order to perform a liquidity calculation?
- A:** Balance Sheet
- Q:** A Liquidity Ratio that is greater than _____ is considered good per Fannie Mae Guidelines.
- A:** 1:1
- Q:** What asset that is not included in the Acid Ratio takes longer to turn into cash?
- A:** Inventory
- Q:** Calculate the Acid Ratio.
- A:** Cash and Cash Equivalents = \$50,000
- A:** Short – Term Investments = \$7,000
- A:** Accounts Receivable = \$10,000
- A:** Inventory = \$21,000
- A:** Current Liabilities = \$32,000
- A:** 2.01 to 1
- Q:** Is the Acid Ratio acceptable to Fannie Mae?
- A:** Yes
- Q:** What Liquidity Ratio is not mentioned in Fannie Mae Guidelines but is part of Liquidity Ratios in accounting? (It is the most stringent ratio).
- A:** The Cash Ratio
- Q:** If the K1s for a Partnership 1065 or and S Corporation 1120s show a documented stable history of receiving cash distributions of income from the business consistent with the level of income being used to qualify are you required to calculate a liquidity ratio?
- A:** No
- Q:** What do you compare Ordinary Income (Box 1) on the K1 of a Partnership 1065 or S Corporation 1120s with to determine if you need to do a liquidity test?
- A:** Distributions